TD/B/39(1)/2
TD/B/C.5/145

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

Thirty-ninth session, first part

OFFICIAL RECORDS
Supplement No. 2

Report of the Special Committee on Preferences

on its nineteenth session (18-22 May 1992)

UNITED NATIONS

TD/B/39(1)/2
TD/B/C.5/145

UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

TRADE AND DEVELOPMENT BOARD

Thirty-ninth session, first part

OFFICIAL RECORDS
Supplement No. 2

Report of the Special Committee on Preferences

on its nineteenth session (18-22 May 1992)

UNITED NATIONS
New York, 1992

NOTE

Symbols of United Nations documents are composed of capital letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

* * *

For the recommendations, resolutions, declarations and decisions adopted by the United Nations Conference on Trade and Development, see:

First session: *Proceedings of the United Nations Conference on Trade and Development*, vol. I, *Final Act and Report* (United Nations publication, Sales No. 64.II.B.11), pp. 18-65;

Second session: *Proceedings of the United Nations Conference on Trade and Development, Second Session*, vol. I and Corr.1 and 3 and Add.1 and 2, *Report and Annexes* (United Nations publication, Sales No. E.68.II.D.14), annex I, A, pp. 28-58;

Third session: *Proceedings of the United Nations Conference on Trade and Development, Third Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.73.II.D.4), annex I, A, pp. 53-114;

Fourth session: *Proceedings of the United Nations Conference on Trade and Development, Fourth Session*, vol. I and Corr.1, *Report and Annexes* (United Nations publication, Sales No. E.76.II.D.10), part one, sect. A, pp. 6-43;

Fifth session: *Proceedings of the United Nations Conference on Trade and Development, Fifth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.79.II.D.14), part one, sect. A, pp. 6-50;

Sixth session: *Proceedings of the United Nations Conference on Trade and Development, Sixth Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.83.II.D.6), part one, sect. A, pp. 6-40;

Seventh session: *Proceedings of the United Nations Conference on Trade and Development, Seventh Session*, vol. I, *Report and Annexes* (United Nations publication, Sales No. E.88.II.D.1), part one, sect. A, pp. 6-27.

Eighth session: *Report of the United Nations Conference on Trade and Development, Eighth Session* (pending publication of the printed *Proceedings*, the report will be issued in mimeographed form under the symbol TD/364).

TD/B/39(1)/2
TD/B/C.5/145

CONTENTS

Chapter		Paragraphs
	Introduction	1 - 8
I.	Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences (agenda item 3)	9 - 46
II.	Harmonization and improvement of the rules of origin (agenda item 4)	47 - 65
III.	Technical Assistance in connection with the Generalized System of Preferences (agenda item 5)	66 - 89
IV.	Proceedings of the 176th (closing) plenary meeting	90 - 94
V.	Organizational matters	95 - 106

Annexes

I. Provisional agenda for the twentieth session of the Special Committee on Preferences

II. Chairman's Conclusions

III. Checklist of documents

TD/B(39-1)/2
TD/B/C.5/145
GE.92-51342/4651B

INTRODUCTION

1. The nineteenth session of the Special Committee on Preferences was held from 18 to 22 May 1992. In the course of its session, the Special Committee held five plenary meetings (172nd-176th). In addition, 84 private and confidential informal bilateral and plurilateral consultations were also held on individual schemes.

2. This report gives an account of the deliberations in plenary meetings, as well as in the Sessional Committee of the Whole established to consider and report on agenda item 4 (Harmonization and improvement of the rules of origin).

Introductory statements

3. The Deputy Secretary-General of UNCTAD said that the decision by UNCTAD VIII to maintain the Special Committee was a clear reflection of its importance. The work programme would remain relevant during the 1990s, as the Conference had called on the Special Committee "... to examine the scope and possible modalities for extending preferential treatment to developing countries with respect to goods, in accordance with the principles and objectives underlying the GSP" ("A new Partnership for Development: The Cartegena Commitment," para. 139). This mandate offered possibilities for improving the Generalized System of Preferences (GSP) in several ways: eventual inclusion of agricultural products subject to tarification; examination and incorporation into the schemes of GSP export-promoting measures; elimination or reduction of certain non-tariff measures; examination of multilaterally agreed objective criteria for changing product or country coverage; and consideration of special preferential tariff regimes between developed and developing countries. Upon the successful conclusion of the Uruguay Round and the extension of the remaining schemes for the 1990s, the Committee might wish to examine the extent of erosion of preferential margins and provide guidelines for offsetting this and enhancing the impact of the GSP. The GSP had surely made an invaluable contribution to the industrialization of developing countries, as a growing number of beneficiaries had developed export-supply capabilities in semi-manufactures and manufactures closely matched to the product coverage of the GSP. An increase in coverage would extend these trends, allowing the more poorly endowed developing countries, and particularly the least developed countries, to utilize the system better.

4. Provision had been made for a Sessional Committee on the Rules of Origin to be convened during the current session. It would continue the examination of ways and means to simplify, harmonize and improve the varied and complicated rules of origin. Since the inception of the Special Committee, resolution after resolution had called for such action. Solutions were needed for better utilization of the GSP.

5. The increased demand for technical cooperation was another indicator of the importance of the GSP. Not only were developing countries now in a better position to use the GSP, but they were establishing GSP focal points, and learning about laws that had an impact on their trade. At the request of the

United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), the Committee also had before it a report of an ESCAP Intergovernmental Meeting on the subject of graduation in the Asian context (TD/B/C.5(XIX)/CRP.1). The result of a careful study under an UNCTAD-executed UNDP project of the effects of graduation, this report clearly demonstrated the effective cooperation between UNCTAD and ESCAP and the important role of technical cooperation programmes as an input to the substantive work of UNCTAD.

6. One of the strengths of the Special Committee was its facility for informal bilateral and plurilateral consultations between preference-receiving and preference-giving countries. The many requests made for such consultations during the present session were expected to yield positive results as well as to provide encouragement to those preference-giving countries which had not yet done so to extend their GSP schemes into the twenty-first century.

7. Three years ago the Special Committee had initiated the development of computer software designed as a practical tool to help exporters and government officials implement the GSP. The completed software package, entitled "Trade Analysis and Information System" (TRAINS), would be demonstrated and distributed to all UNCTAD member States during the present session.

8. The Director and Coordinator of the International Trade Programmes observing that the Special Committee on Preferences was the only permanent Committee of the Trade and Development Board to be retained following UNCTAD VIII, said that, although the terms of reference of the Special Committee remained unchanged, its work would be governed by the "Spirit of Cartagena" and the relevant paragraphs of the Cartagena Commitment relating to the GSP. Having regard to the importance of the Special Committee, this first session to be held in the third decade of the GSP should be aimed at strengthening the impetus for an effective GSP during the 1990s.

Chapter I

REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES (Agenda item 3)

9. For consideration of this item, the Special Committee had before it the following documentation:

"Fifteenth general report on the implementation of the generalized system of preferences: report by the UNCTAD secretariat" (TD/B/C.5/142);

"The incidence of non-tariff measures on imports of GSP-covered products: report by the UNCTAD secretariat" (TD/B/C.5/142/Supp.1).

"Report of the Intergovernmental Meeting on Policy Issues and Measures arising from the Effects of Graduation under the Generalized System of Preferences: note by the UNCTAD secretariat" (TD/B/C.5(XIX)/CRP.1).

10. The Director and Coordinator of the International Trade Programmes, introducing documents TD/B/C.5/142 and Supp.1, as well as TD/B/C.5(XIX)/CRP.1, pointed out that the first report highlighted recent changes and improvements in the GSP and updated the trade effects of the system to cover the most recent reporting period. The supplement described the incidence of non-tariff measures on imports of GSP-covered products, updating an earlier study on the same subject. Its main finding was that over one fifth of GSP-covered products in 11 OECD schemes, in 1988 trade terms, were subject to non-tariff measures. The third report covered the intergovernmental meeting on the effects of graduation and had been made available at the request of ESCAP.

11. The representative of Japan outlined recent developments in his country's GSP scheme. Namibia, as from 1 April 1992, and Czechoslovakia, as from 1 May 1992, had become beneficiaries of Japan's GSP. Consequently, the total number was now 131 countries and 25 territories. Cambodia, the Solomon Islands, Madagascar and Liberia had become eligible for special measures for least developed countries under the scheme. As a result, the beneficiaries of these special measures now totalled 41. The GSP ceiling quotas officially announced for the fiscal year 1992 were either at the same level or higher than 1991. The Japanese GSP scheme was safeguarded, in principle, by an escape clause system which so far had never been applied. The Generalized System of Preferences was an autonomous instrument for the promotion of exports, industrialization and the development of developing countries. Thus the GSP schemes had been created and were implemented with special regard to the individual economic structures and conditions of both preference-giving and beneficiary countries. Hence, while the particular measures under each scheme could vary in nature and scope, the objectives remained the same.

12. The representative of China said that the GSP was a viable policy tool for helping the developing countries to expand their exports and increase their returns as well as for enhanced North-South trade cooperation. Therefore, it was essential not only to maintain the GSP but to improve the system and safeguard its purpose and principles. The eighth session of UNCTAD

had reaffirmed its importance. He expressed concern that the GSP had been adversely affected by certain external factors, such as international trade regionalization, growing trading blocs, increasing trade monopoly, new free-trade agreements among developed countries and the Uruguay Round of Multilateral Trade Negotiations. The resultant erosion had been exacerbated by various other measures applied by preference-giving countries such as unilateral discrimination and requests for reciprocity on the part of developing countries. He called on preference-giving countries to observe the conclusions of UNCTAD VIII. In particular they should strive to improve and expand product coverage in line with the export-supply capacity of preference-receiving countries. For a GSP open to the greatest extent possible, restrictions would need to be reduced while assuring stability and predictability. While China had become a beneficiary of GSP treatment as from 1979, the utilization rate had never been very satisfactory. The rules of origin of certain preference-giving countries were too complicated, certain preference-giving countries had not extended GSP treatment to China, and some had imposed strict quotas while others had applied graduation so as to terminate GSP benefits. In recognition of the interdependence of today's world economy, the principles of universality, non-discrimination and non-reciprocity must be upheld.

13. The representative of Nigeria, in stressing the importance of the GSP to the economies of developing countries, observed that non-tariff measures impeded the potential benefits to be derived from the GSP, especially in regard to iron and steel products and agricultural goods. For some developing countries undergoing structural adjustment, these sectors represented promising areas for generating revenue. In supporting the conclusion articulated by the secretariat in TD/B/C.5/142/Supp.1, he urged the preference-giving countries to take action on non-tariff measures which limited GSP benefits. These countries should likewise consider expanding the product coverage of their schemes in order to assist in the resuscitation of many struggling economies, particularly those in sub-Saharan Africa. As regards the Uruguay Round of GATT negotiations, the interests of preference-receiving countries should be taken into consideration in the exchange of trade concessions. While supporting the goals and objectives of the Uruguay Round, many developing countries would welcome the continuation of GSP schemes for some time to come. He reiterated the request made at previous sessions for reconsideration of the exclusion of Nigeria from the GSP scheme of a major trading nation, having regard to the volatile nature of the world energy market and fluctuating oil prices.

14. The representative of Romania paid tribute to the significant role of GSP in the expansion of world trade as attested by the fact that increases in preferential imports by OECD countries were three times greater than increases of imports from all sources. Many preference-giving countries had improved their schemes. The decision by Japan to extend the GSP scheme for another 10-year period and to increase the tariff ceilings for many items was welcomed, as were the improvements and extension of preferential schemes by Austria and Finland. Romania, in its all-out process of democratization and transition to a market economy, found itself confronting two main difficulties: one was the critical economic situation inherited from the past, while the second related to the contradictions and costs generated by

the transition process. In that context, the decision of the Swiss authorities to grant Romania preferential treatment without restrictions was indeed welcomed; he expressed the hope that this example would be followed by the two countries which still applied negative lists to Romania. A number of restrictive provisions still persisted under certain schemes. In reviewing the extension of GSP schemes into the next century, preference-giving countries could greatly enhance the benefits by taking the following into account: the need for continuous improvement of the schemes as well as their prolongation; the observance of multilaterally agreed principles on non-reciprocity and non-discrimination; wider product coverage and fewer restrictions on qualifying imports; the avoidance of arbitrary abolition of preferential advantages; simplification and harmonization of GSP rules of origin; avoidance of non-tariff measures. Upon the completion of the Uruguay Round, Romania believed that it would be useful if the UNCTAD secretariat prepared a study analysing the Round's impact on the GSP and suggesting ways to retain the benefits of GSP.

15. The representative of Austria said that, with reference to paragraphs 6 and 8 of TD/B/C.5/142, the Republic of Bosnia-Herzegovina had been added to the list of preference-receiving countries while Madagascar would be added to the list of least developed countries as from 1 July 1992. The reference in the same document to an addition to the coverage of the Austrian scheme should be read as meaning cotton undergarments, for men, and cotton outer garments, for women. The Austrian decision to extend its GSP scheme for only one year could be explained simply by Austria's pending application for membership in the EEC, and its intention to match its scheme as far as possible with that of the EEC. If this process was not completed before the end of the year, the current scheme would probably be extended for one more year. On the question of graduation, despite the autonomous and individual nature of the GSP schemes, and recognizing the inherent practical difficulties, an attempt might nevertheless be made to arrive at an understanding on some criteria or guidelines. Thus it might be worthwhile to tackle this subject in the light of the agreement reached at UNCTAD VIII.

16. The spokeswoman for the Asian Group (India) noted that the Special Committee on Preferences was the first subsidiary body of the Trade and Development Board to meet since UNCTAD VIII. Not only had its mandate not been questioned but it had even been strengthened at Cartagena. The Cartagena Commitment (in para. 139) called on the Special Committee to examine the scope and possible modalities for extending preferential treatment to developing countries with respect to goods, in accordance with the principles and objectives underlying the GSP. This task was all the more important in view of the impact which successful completion of the Uruguay Round would have on tariff preferences. All aspects of market access would have to be examined by the Special Committee.

17. Significant support had been provided by the GSP as a policy instrument promoting the exports of the Asian developing countries. Indeed the outcome of recent structural adjustment and economic reform programmes undertaken by many Asian countries rested on the success of their export and investment performance. Complementary action by the international community would be needed if the costly autonomous trade liberalization undertaken by many Asian

countries was going to yield development dividends or be sustained. A strengthened and expanded regime for preferential treatment of their exports would be indicative of support. As the GSP was a proven instrument of trade creation for the mutual benefit of both preference-giving and preference-receiving countries, the Asian Group appreciated the extension by donors of their GSP schemes for another decade or more and urged those countries now reviewing their schemes to consider extending them.

18. The Cartagena Commitment had underlined the importance of compliance by donor countries with the multilaterally agreed principles of the GSP namely, non-reciprocity and non-discrimination. Any arbitrary action to link the grant of GSP benefits to non-economic factors such as environment, labour standards and intellectual property protection would adversely affect the stability and utility of the schemes and not only would it be unrelated to their objectives but would hamper their attainment. As preferential treatment of some beneficiary countries had been unilaterally withdrawn by some preference-giving countries, the Asian Group was concerned about discretionary exclusion from GSP treatment, whether temporary, permanent, ab initio or ad hoc. Such action was not in keeping with the principle of generalized and non-discriminatory coverage. Any action in this regard should be based on objective, multilaterally agreed criteria and be taken in consultation with potentially affected preference-receiving countries, allowing their exporters sufficient adjustment time.

19. The Cartagena Commitment also offered hope for substantial expansion of product coverage to include hitherto excluded products of current and potential export interest to developing countries. Comprehensive coverage should extend to semi-processed and processed agricultural products, leather goods, textile and clothing, as well as steel products and some categories of electronics of export interest to developing countries. Furthermore, the tariffication of a number of non-tariff measures in the Uruguay Round would strengthen the case for inclusion of these products in the GSP schemes. Restrictions on preferential imports and withdrawals of benefits on a product-specific basis had rightly been seen by UNCTAD VIII as a source of instability. There was no economic justification for the so-called product/country exclusions or restrictions, nor was there any objective basis of ascertaining the absolute, sustained competitiveness of a particular product exported by a beneficiary, either globally or in a particular market. Product-specific exclusions had the ironical effect of denying benefits to the very countries able to use them in order to penetrate a market and sustain their presence there.

20. Another important issue concerned maintaining meaningful preferential margins, following MFN tariff liberalization arising from the Uruguay Round. The Cartagena Commitment recognized that preference-giving countries should try to increase preferential margins and duty-free treatment offered under existing schemes and so the Asian Group was calling on the UNCTAD secretariat to identify areas of erosion of preferences or requiring specific action. In its view, safeguard action with regard to GSP imports should be limited to escape-clause type action only and be exceptional, temporary and subject to prior consultations with potentially affected beneficiaries, as indicated in Special Committee Resolution 13 (XVIII). Every effort should be made to avoid any trade harassment or disruption effect of safeguard action. Procedures

were needed for admitting injury petitions for review so that developing-country exporters, especially small and medium-size ones, would not be deterred from using the GSP. With respect to non-tariff measures, the Cartagena Commitment had recorded a major advance, in urging preference-giving countries to reduce or eliminate non-tariff barriers linked to the GSP schemes. While some aspects of the non-tariff barriers hindering GSP imports would have to be dealt with in the larger context of the Uruguay Round, as an immediate step, preference-giving countries could consider removing all quantitative restrictions on GSP imports. The Asian Group also believed that there was a strong case for reviewing the use of "hard core" non-tariff measures to limit imports eligible for preferential tariff treatment.

21. The representative of the European Community (EC) said that the consultations which take place during sessions of the Special Committee on Preferences have often enabled the Community to identify and even solve technical problems faced by preference-receiving countries in the utilization of the EC scheme. Recent changes in the EC scheme were outlined as follows:

- On 1 January 1992, Albania, Estonia, Latvia and Lithuania had been added to the list of beneficiaries;

- On 1 March 1992, Hungary, Poland and Czechoslovakia had been excluded from the GSP scheme, upon the entry into force of bilateral agreements between them and the European Community;

- On 1 January 1992, the EC had extended to countries of Central America special advantages in respect of the agricultural sector comparable to those granted in November 1990 to the Andean group of countries;

- On 1 January 1992, preferential treatment for textile products covered by the Multi Fibre Agreement was extended to Mongolia;

- On 1 January, Bosnia-Herzegovina, Croatia and Slovenia and two Yugoslav republics had been granted preferences in the agricultural sector;

- The Republic of Korea had been reintegrated into the list of GSP beneficiaries.

22. In making these changes, the agricultural and textile sectors had remained the same while the preferential limits, for industrial products, expressed in ECUs, had been increased by 5 per cent. The data in TD/B/C.5/142 showed an increase in the utilization of the GSP scheme of the EC, even though only 10 beneficiary countries had shared 70 per cent of the available GSP advantages.

23. The representative of Colombia underlined the importance of the GSP as an instrument to boost economic development. He said that there were five main obstacles which hindered full utilization of the GSP schemes. The first two - the exclusion of some sensitive products and the application of non-tariff measures on GSP-covered products - were mainly responsible for the reduced utilization rate of the system. The third obstacle was country and product

graduation. In this regard, he doubted that it was possible to agree on multilateral criteria ruling out graduation, given the unilateral and non-reciprocal base of the preference schemes. Fourthly, the inclusion of certain collateral requirements diverted the schemes from their development aims. Finally, it was necessary to await the outcome of the Uruguay Round negotiations before reconsidering the schemes, especially the aspect of preferential margins. Colombia was willing to cooperate with other preference-receiving and preference-giving countries in order to resolve the problems mentioned.

24. The representative of Brazil expressed the hope that the general lines of the Cartagena Commitment would pervade all UNCTAD organs. For this reason, the Special Committee should have open discussions to reach consensus on GSP issues. He commended those countries which had offered GSP schemes, reminding them that they could never be too wide in scope or simple as to procedure. While the GSP was an autonomous instrument, it also embodied certain basic principles, as had already been mentioned by other delegations. In this context, he noted that the practice of graduation in the form of country exclusions ran counter to the objectives of the system. It was especially detrimental because some sectors in developing countries could become quite competitive while others might still need preferential treatment. As stability was an important feature and the Uruguay Round negotiations were aiming at assuring this element in world trade relations, he urged preference-giving countries when considering modifications to their schemes to do their utmost to impart stability. He also invited preference-giving countries to discuss any modifications with those affected, especially with respect to exclusions of countries or sectors.

25. The representative of the United States of America said that his Government had continued adding both countries and products to its GSP scheme. Bulgaria, Estonia, Latvia and Lithuania had thus been added since the last session. There had also been two reviews of products eligible for GSP benefits: the 1991 GSP annual review and a special GSP review for Central and Eastern Europe. In these reviews some 170 new items had been considered for GSP duty-free treatment and decisions would be announced shortly. In past sessions, the United States had put great emphasis on its annual review process, since it was the only one that allowed beneficiary countries the opportunity to request the expansion of GSP benefits of interest to them. It was felt, however, that this focus had been somewhat misleading as annual changes were by definition peripheral. The overall picture of GSP and duty-free trade with developing countries was more telling. Duty-free imports of GSP-eligible items had increased by an extraordinary 23 per cent in 1991 over 1990, reaching $13.7 billion (up from $11.1 billion). This was compared to a 2 per cent rise in total United States imports from all countries during the same period.

26. The GSP programme would expire on 4 July 1993, and renewal required legislative action by the United States Congress. The Administration had recently begun the renewal process and was developing a formal position. Three points concerning possible renewal of the GSP programme were then highlighted. First, with respect to the process itself, renewal of the GSP was an open, transparent process, engaging all interested parties, foreign and

domestic. In March 1992, a public announcement had been published in the Federal Register soliciting public comments from interested parties. The Administration planned to hold public hearings on GSP renewal on 8 and 9 June 1992 in Washington. Comments had been received from several beneficiary countries. Secondly, the scope of the renewal exercise allowed almost every aspect of the GSP programmes to be reviewed. As a result, the United States GSP scheme could change significantly. The programme had evolved over time and in order to integrate it more closely into overall trade policy it was essential to continue the review process. Finally, the United States remained committed to the overall aims of the GSP programme - promotion of economic growth and development through expanded trade. However, it was often forgotten that the GSP had never been intended as a permanent bilateral assistance programme, or a substitute for the reduction of trade barriers through multilateral trade negotiations. The principle of graduation, which was as old as the GSP itself, was a necessary corollary to the granting of trade preferences. Countries were encouraged to participate in the United States GSP renewal process by engaging their representatives in Washington.

27. The representative of Mexico stated that the importance of the Special Committee on Preferences and its tasks lay in the need to promote the satisfactory functioning of the various preferential schemes, as well as the exploration of new possibilities for promoting trade in the developing countries, bearing in mind that the internationalization of production processes called for trade diversification as a key factor for avoiding the prospect of declining trade in the future. Although utilization of the GSP schemes had increased, it was still not satisfactory. He proposed the following measures: deeper and more extensive publicity of the system; an increase in technical assistance activities; improvement, renewal and longer terms of operation of the schemes; elimination of non-tariff measures on GSP-covered products; increased product coverage; and that certain countries which had recently come into existence and were still going through a period of transition should, even though they might now be preference-giving countries, become at the same time preference receivers.

28. The representative of Sri Lanka observed that it was an opportune time for the preference-giving countries to respond positively to the decisions and commitments made under paragraphs 134 to 140 of the "Cartagena Commitment", in reviewing their schemes. He expressed support for the statement made by the Asian Group (paras. 16 to 20 above). The GSP had been an important instrument of multilateral trade policy over the past two decades, thanks to the efforts of both preference-giving and receiving countries. However, all schemes contained various restrictions and improvements had not been sufficient to achieve the declared objectives of the GSP. Expansion of product coverage would be an important means of improving the system during the 1990s, particularly for countries such as Sri Lanka which had followed, since 1977, outward-looking, market-oriented economic policies and reforms which had resulted in a widening export base that had not found a corresponding match of GSP coverage. With reference to paragraph 140 of the Cartagena Commitment, deeper tariff cuts and wider duty-free treatment would compensate for MFN tariff reductions following completion of the Uruguay Round. Continued

improvements in the GSP should take into account the needs of both small beneficiary countries and the least developed countries, helping to ensure a more equitable distribution of GSP benefits.

29. The representative of Peru called for an improvement of the GSP schemes and the elimination of the non-tariff measures affecting products. Such measures were responsible in the main for the limited utilization of the schemes. Preference-giving countries would have to start revising their schemes, especially the preferential margins, with a view to offsetting possible imbalances following the outcome of the Uruguay Round. Peru was ready to participate in international negotiations to adopt uniform multilateral criteria for country graduation. He mentioned that it would be useful to take advantage of the mandate of the recently created Ad Hoc Group on Trade Efficiency in order to promote the full utilization of the GSP and fast access to information. Product graduation should not be an instrument used to make market adjustments. Finally, he was pleased to note that Peru had been reinstated in the beneficiary list of Poland on 1 January 1992 and that the problem created by the request to review the status of Peru in the GSP of the United States due to lack of agreement on nationalization compensation had already been satisfactorily solved.

30. The representative of Hungary observed that a major event since the last session of the Committee - the UNCTAD VIII Conference - had reaffirmed the useful role of GSP as a trade policy instrument for multilateral cooperation and the promotion of development. Turning to the recent improvements in the Hungarian system of preference, he noted that 101 industrial products had been added to the scheme followed by six more products in January 1992. Cambodia, Solomon Islands, Zaire and Zambia had been added to the list of least developed countries which enjoyed duty-free preferential treatment on all their export products. Since launching the Hungarian scheme, the value of imports entering Hungary at preferential rates had more than tripled. In 1991 the imports of machines, means of transportation and investment goods, as well as consumer goods from beneficiary countries, had increased significantly. For individual beneficiary countries, in 1991 there were notable increases in imports from Egypt, India, Indonesia, Thailand, Singapore, Cameroon, Colombia and the Islamic Republic of Iran. The products imported from beneficiary countries were almost fully covered by the Hungarian GSP scheme. The ratio of preferential imports to dutiable imports, i.e. the utilization rate was very high. Successful completion of the economic transformation process taking place in Hungary required greater market access for products in which Hungary had comparative advantages. The preferential tariff treatment granted to Hungary by some OECD countries was thus valuable and had made an important contribution to the export growth of Hungary in 1991. As from 1 March 1992, the trade provisions of the association agreement between Hungary and the European Communities had replaced GSP treatment. Hungary also appreciated the Trade Enhancement Initiative for Central and Eastern Europe, announced by the President of the United States of America in July 1991, and hoped that requests for inclusion of further products in the United States GSP programme would be considered favourably.

31. The representative of Sweden said that her country's scheme, in operation since 1972, was not limited in time. The goods eligible for GSP treatment enjoyed total exemption from duties; no tariff quotas or ceilings were

applied. The safeguard clause had never been used. Sweden granted duty-free treatment of all products from least developed countries. So far 98, of which 22 least-developed, beneficiary countries had notified the Swedish Government of their wish to benefit. The following changes had been made in the scheme: Slovenia and Croatia had been added to the list of beneficiaries; Turkey would be deleted as from 1 July 1992 when a free trade area agreement would replace its GSP status; Liberia, Zambia, Zaire and the Solomon Islands had been granted LDC status; Namibia, which had now notified the Swedish authorities, would also receive it. Sweden would grant LDC status under its scheme to all United Nations designated least developed countries upon their notifying the Swedish Government. Brazil had requested duty-free treatment for handmade fabrics of cotton, a request currently under consideration. Statistics for 1991 indicated that total imports under the Swedish scheme had amounted to 5.6 billion Swedish kronor, or more than 21 per cent of total imports amounting to 26.4 billion kronor. Products worth 11.4 billion kronor had been imported duty-free on an MFN basis which meant that about 64 per cent of total imports were duty-free. The average utilization rate was 67 per cent, showing an increase over recent years. Concerning TD/B/C.5/142/Supp.1, she mentioned that Sweden had removed NTMs from textiles and shoes. She expressed some doubts about the figures for agricultural imports to Sweden. She affirmed that only one State monopoly existed in Sweden, namely for alcoholic beverages.

32. The representative of Uruguay stated that his country had greatly benefited from the Generalized System of Preferences which had provided better export opportunities. The system could be improved further by extending the product coverage and harmonizing the rules of origin. It was very important to ensure that the GSP retained its use as a development tool, rather than pursue other objectives. He also highlighted the role of the UNCTAD secretariat in assessing the impact of the system and in providing valuable technical assistance on its functioning.

33. The representative of Switzerland announced that the Swiss Parliament had prolonged the validity of the Swiss scheme for another five years, until 28 February 1997. Switzerland had introduced some changes in 1991. With effect from 1 January 1992, Albania had been included in the beneficiary list and Liberia had been added to the list of least developed countries. Likewise, the full benefits of the Swiss scheme had been granted to Bulgaria and Romania, countries which previously had received only partial GSP treatment. As of 1 April 1992, upon conclusion of a free trade area agreement, Turkey had been deleted from the list of beneficiaries. The addition of Cambodia, Madagascar, Solomon Islands, Zambia and Zaire to the list of least developed countries was foreseen for 1 July 1992.

34. The representative of Chile, referring to the important role that the GSP played as an instrument of international cooperation, called upon the preference-giving countries to review their schemes at the end of the Uruguay Round, looking especially at the preferential margins, with a view to averting the erosion of benefits.

35. The representative of Finland said that since the beginning of 1992 his country had allowed duty-free entry to nearly all products of the least developed countries. The only exceptions were six agricultural items in the

HS 4-digit category, concerning maize, soya, sunflower, palm oil, oil seed and tapioca. For some ready-made garments, 50 per cent duty reduction was applied during a two to three-year transition period after which they also could be released from duty on imports from LDC countries. When renewing its GSP scheme, Finland had cut about 50 per cent of the negative list to the advantage of other beneficiary countries. A new GSP-information booklet including these improvements would be published soon. The Federated States of Micronesia, Marshall Islands, St. Kitts and Nevis, Croatia and Slovenia would be added to the list of GSP beneficiary countries. The status of Cambodia, Madagascar, Solomon Islands, Zaire and Zambia would be changed to that of least developed countries and consideration was being given to adding Namibia. In principle, Finland would follow the official list of least developed countries recognized by the United Nations General Assembly. Finland supported the idea of applying commonly accepted objective economic criteria to graduate countries from the lists of GSP beneficiary countries. Finland was also in favour of simplifying the rules of origin and having harmonized rules of origin covering all the GSP schemes of different countries. The statistics compiled by the National Board of Customs showed that the GSP eligible imports to Finland in 1991 remained at the same level as 1990: 2.0 billion markkaa. Imports which received GSP treatment amounted to 1.1 billion markkaa, a utilization rate of around 60 per cent. GSP-eligible imports were about 2.6 per cent of total Finnish imports in 1991. Total imports from the beneficiary countries were 7.4 billion markkaa in 1991, slightly above the previous year.

36. The representative of Indonesia supported the Asian Group's statement elaborating the key elements which made the GSP so positive and useful. The GSP scheme had been established to expand exports and to promote the industrialization of the developing countries' economies. For the attainment of this objective it was essential to eliminate the factors which could impede implementation of GSP schemes. Although the Asian region was one of the leading beneficiaries of GSP schemes, unlike other regions, GSP treatment was the only preference treatment it enjoyed. Indonesia, as a developing country in Asia, welcomed the idea of widening the scope of the GSP, particularly in terms of product coverage and the deepening of tariff cuts on products of interest to developing countries. Since a large number of rural people in Indonesia still depended on the agricultural sector, it was of utmost importance that more agricultural products be included in the schemes. Their addition should be accompanied by the granting of the deeper tariff cuts needed by developing countries in order to enter the market of the preference-giving countries. Efforts were needed to overcome the problem of imbalances between the products covered under the GSP schemes and the export-supply capabilities of beneficiary countries. As for the "phasing out" of GSP benefits on a country/product basis, if graduation was deemed necessary, it should adhere strictly to multilaterally agreed principles that were objective, non-discriminatory and competitive. Application of per capita income and development-level criteria solely were not sufficient. Consultation with countries affected should take place before graduation and such countries should be given ample time to adjust their economies to the new situation.

37. The representative of the Russian Federation reaffirmed the importance of the GSP as a significant tool for the development of trade and economic growth

of developing countries, paying tribute especially to the basic principles of the GSP regarding its general non-discriminatory and non-reciprocal character. He noted that Russia had entered a period of profound political, economic and social change. Old structures had disintegrated and the country was in transition to a free democratic State based on market relations and respect for human rights. Time would be required to define national interests in the field of international economic cooperation. Effective use of traditional market-economy instruments of foreign trade regulation could come about only after macroeconomic stabilization had been achieved, substantive distortions between international and domestic prices had been eliminated and the national currency had become stable. Meanwhile, a new customs tariff was being elaborated. It would conform with international norms and rules and would serve as the basic instrument regulating foreign trade. In the formulation of a national scheme of preferences, Russia would be guided by economic criteria, taking into account socioeconomic factors of the developing countries and the novelties of the foreign economic activity. Responding to questions raised in paragraph 2 of TD/B/C.5/142 concerning the application of the GSP scheme of the former USSR, he noted that in evaluating the efficiency of implementation of preferential trade with the developing countries, one had to take into account the factors and conditions prevailing in a system where the customs tariff had played a different role from that of a market system. By converting the customs tariff into an effective means of foreign trade regulation, and by re-establishing and expanding the possibilities for rendering assistance to the developing countries, Russia expected to create a national scheme of preferences which would effectively contribute to the expansion of developing-country trade and economic growth. While awaiting the introduction of the new customs tariff, duty-free treatment of imports from developing countries would continue as under the old scheme.

38. The representative of Bangladesh supported the statement of the representative of India on behalf of the Asian countries, highlighting the measures which the preference-giving countries should adopt in order to achieve the objectives of their repective GSP schemes. As regards the effects of the GSP on the least developed countries, he pointed out that the share of the 47 least developed countries in the global export trade was only 0.4 per cent. This meant that in the year 1989, while coverage of the GSP was about 11 per cent of MFN dutiable imports, only 7 per cent of LDCs' exports benefited from the GSP schemes. The statistics in the secretariat's report revealed a steady decline over the period 1982 to 1989. The utilization figure remained static at about 63 per cent; the shares of individual preference-giving countries varied widely.

39. In the context of market access negotiations in the Uruguay Round, Bangladesh, speaking on behalf of the least developed countries, proposed that special provisions be made for the least developed countries such as elimination of tariffs on all LDC products, exemption from quantitative restrictions and other non-tariff measures as well as the provision of lower requirements in respect of local materials used in manufactured exports. Global cumulation should be granted among countries where at least one was a least developed country; and outward processing carried out in a least developed country should automatically confer LDC origin on the product as meeting the content requirement. Non-economic factors should not be linked or allowed to influence the conduct of international trade and the underlying

principles and rules. He drew attention to the fact that the United States had placed a number of least developed countries, including Bangladesh, under review in the context of workers' rights practices. He expressed concern over this action and observed that linking such issues to the conduct of international trade was tantamount to playing into the hands of protectionists at a time when all were aiming at further liberalization of international trade. He made an earnest appeal to all concerned to deal with such issues in the relevant recognized international forums, for example, by treating workers' rights practices in the context of the International Labour Organisation.

40. The representative of Malta stated that in spite of the fact that around three-quarters of Malta's trade was with the European Community, the GSP still played an important role in the expansion of export trade, with beneficial consequences for the development of its economy. Diversification of both the export and the manufacturing base had been to a considerable extent the result of preferential trade under the GSP. Furthermore, the GSP remained instrumental in attracting foreign investment to Malta. For example, in 1990, approximately 50 per cent of firms with foreign shareholding had exported under one or more GSP schemes. Notwithstanding the geographical distance, the United States GSP scheme was the most largely utilized. It alone accounted for the greater part of Malta's annual GSP exports. After the United States, in descending order by value, in 1990 Malta had utilized the schemes of Switzerland, Sweden, Canada, Finland, Australia, Austria, Norway and Japan. Despite worldwide assistance and relief efforts, the number of countries designated as "least developed" was increasing. The GSP was just one of the tools available to the industrialized world to improve this situation. While Malta had applied to join the European Community and would most likely be a preference-giving country in the near future, Malta supported the GSP programme and would encourage all preference-giving countries to continue to pursue tangible improvements of their schemes.

41. The representative of India recalled that the GSP had received substantive attention by UNCTAD VIII at Cartagena, where its objectives and the principles governing its implementation had been re-endorsed. In his view, the GSP was the appropriate instrument for achieving increased export earnings, promoting industrialization and accelerating the pace of economic growth of developing countries. Given its role in the expansion of trade, he hoped to have affirmations from all preference-giving countries of their intentions to renew and improve their schemes for the 1990s. In spite of positive features of GSP schemes, about half of dutiable Indian exports to the OECD countries were covered by the GSP. Under this coverage, there was considerable variation in the conception and execution of different schemes, which resulted in different GSP utilization rates. He suggested that the GSP as a whole would benefit from improved product coverage, greater stability and predictability and improved transparency and simplicity. The GSP must be generalized, non-reciprocal and non-discriminatory. Any deviations must be corrected and individual schemes should be fully aligned with the principles of the GSP.

42. The representative of Yugoslavia supported the views and proposals expressed in the statement of the representative of India speaking on behalf of the Asian Group (paras. 16-20). The fact that the UNCTAD VIII in Cartagena

had strengthened the mandate of the Special Committee reflected the value and usefulness of GSP as a multilaterally agreed instrument of development cooperation. Its contribution to the promotion of Yugoslav exports had been significant. That was why his Government fully adhered to paragraph 139 of the Cartagena Commitment which had entrusted the Special Committee with the task of enhancing preferential treatment of goods from developing countries. However, his Government had learnt of the decisions of a number of preference-giving countries to withdraw preferential treatment in respect of Yugoslavia. These decisions represented a violation of the multilaterally agreed principles of the GSP, namely non-reciprocity, non-discrimination and universality. He urged these countries to reconsider their decisions. There should be no policy conditionality or quid pro quo attached, whether economic or political, to the grant of benefits. Furthermore, any arbitrary action taken in the context of linking grants of the GSP benefits to non-economic factors would adversely affect the stability and utility of the schemes and would in fact seriously hamper the achievement of GSP objectives. He said that his Government wished to convey the concerns of its booming small and medium-sized private firms over the negative consequences of such decisions. Concerning the possibilities for improving the GSP schemes, he felt that comprehensive product coverage should include semi-processed and processed agricultural goods, leather, textiles and clothing, steel and some electronic products. He shared the concerns of the Asian Group about limitations and restrictions on preferential imports, the withdrawal of preferential benefits on a product-specific basis from a developing country and the maintenance of meaningful preferential margins following MFN tariff liberalization at the conclusion of the Uruguay Round.

43. The representative of Egypt said that although the GSP trade statistics in 1989 represented less than 2 per cent of international trade, GSP trade still accounted for approximately 10 per cent of developing country exports, not including trade in services. GSP played an important role in helping developing economies to implement adjustment policies and further develop the social fabric. The GSP schemes would no doubt need to be adjusted following the outcome of the Uruguay Round. He added that GSP schemes were beneficial for all countries because of their trade-creating effects. Product and country graduation, however, had adverse impacts on developing countries. This subject should be dealt with on a multilateral level through a mechanism that might prove beneficial to both the consumer and the producer. He wished finally to express support for the many delegations which had called for harmonizing and liberalizing the rules of origin, and underlined that the distinction between the two concepts was glaringly obvious and not at all subtle.

44. The representative of Morocco said that discussions had so far focused on requests from preference-receiving countries to expand GSP product coverage, eliminate NTMs, and maintain preferential margins while preference-giving countries had given details of improvements in their schemes. He attributed this situation to the international recession in developed country markets and the standstill in the Uruguay Round negotiations. As to how the GSP could improve the industrialization of developing countries, he questioned whether (a) the preferential margin of the GSP could offset the advantages enjoyed by the industries of developed countries; (b) the developed countries were trading on the MFN basis or on the basis of trade arrangements more

advantageous than the GSP; (c) the comparative advantage of GSP preference was sufficient to influence buyers to choose imports from developing countries. Customs duties might not now be a determinant in terms of market access. Furthermore, GSP preferential margins might not be sufficiently attractive to generate external investments in developing countries and, if so, the GSP might not promote industrialization. Comparisons should be made not between the GSP rate of duty and the MFN rate, which applied to a shrinking part of trade, but rather with the rates applied under the different preferential regimes in force between developed countries. He also stressed the importance of the UNCTAD technical assistance for helping to understand and use the GSP schemes, not only on the part of beneficiaries but also importers.

45. The representative of Czechoslovakia said that in his country economic reform and the transformation into a market-based system required better access to the markets of developed countries. He appreciated the inclusion of his country in the list of beneficiaries of some preference-giving countries. Liberalization of foreign trade called for greater protection of domestic industry during the transition period. It had been decided to restructure the customs tariff as from 1 January 1992, receiving waivers from the contracting parties to GATT to do so. In spite of this measure, Czechoslovakia had decided not to change its GSP system introduced in 1972 and since then several times substantially improved. Its eventual adjustment would depend on further development of economic reform. Under the present system the least developed countries enjoyed a zero rate of duty. Other developing countries received 75 per cent duty exemption. In addition, some tropical products were subject to zero duty, while others benefited from 85 per cent duty exemption.

46. The representative of Ecuador recalled that the mandate of the Special Committee had not only been kept but had been strengthened at UNCTAD VIII. This was proof, he said, of the Committee's importance for improving relations between the developed and the developing countries. The prevailing unfavourable trends in developing countries could be reversed through differentiated, preferential treatment aimed at integrating them in the global trading system. Non-discriminatory, universal and non-reciprocal preference schemes could create conditions for stimulating trade between the North and the South. Meeting the expectations of economic growth implied greater stability and predictability which the GSP could provide. However, various preference schemes had been neutralized by non-tariff measures which distorted the very principles of GSP. The Government of Ecuador had been making an effort to stimulate exports and diversify the national economy. To this end Customs, fiscal and monetary legislation had been rationalized. This had raised exporters' expectations for greater market access. The Andean Pact had initiated a policy of open markets which would soon yield results. The necessary conditions were thus being created for counterpart action by the international community to complement the national adjustment policies undertaken at considerable sacrifice and aimed at establishing the developing countries in the world economy and rendering them competitive. Ecuador wished to voice its appreciation to the Government of the United States of America for the Andean Trade Preference Act (ATPA), signed on 4 December 1991 and intended to combat drug trafficking by offering opportunities to expand trade in legal products.

Chapter II

HARMONIZATION AND IMPROVEMENT OF THE RULES OF ORIGIN (Agenda item 4)

47. For its consideration of this item, the Special Committee on Preferences had before it the following documentation:

> "Examination of definitions of 'substantial transformation' and implications of harmonization: possible initiatives in regard to simplification and liberalization: report by the UNCTAD secretariat" (TD/B/C.5/141);
>
> "Improvements in the rules of origin, including harmonization: identification and promotion of possible initiatives" (TD/B/C.5/120).

48. At its 174th plenary meeting, the Special Committee established a sessional committee of the whole to consider and report on agenda item 4.

49. The Director and Coordinator of the International Trade Programmes, in introducing TD/B/C.5/141 and Corr.1, said that as a follow-up to agreed conclusion 12 (XVII) and resolution 13 (XVIII) of the Special Committee on Preferences, provision had been made for a sessional committee on the rules of origin to be convened at the present session.

Consideration of the Sessional Committee

50. The spokesman for the Asian Group (Malaysia) said that harmonization, simplification and liberalization of the rules of origin had been discussed in committees and working groups for almost 20 years. Developed countries had accepted, in principle, the need for harmonization and simplification and would consider concrete cases of liberalization. The only practical outcome so far had been extensive harmonization of the process criterion. The percentage criterion remained as diverse as ever. It was imperative, in view of the complexity and stringency of the rules of origin and their restrictive effects on GSP utilization, to resolve the present stalemate. Regarding the long-established proposals contained in TD/B/C.5/120, the preference-giving countries should now be able to respond. On the recent proposal to introduce full harmonization, as discussed in TD/B/C.5/141, most countries would wish to give further consideration to the matter although preliminary views might be heard at the present session. The opportunity should be taken to explore ways and means to carry the work of the sessional committee forward. To this end, an item-by-item discussion on an informal basis might prove useful.

51. The representative of Sri Lanka said that the rules of origin continued to present a major obstacle to the achievement of GSP objectives; hence it was imperative that they be reformed. Evidence of difficulties encountered by preference-receiving countries persisted. The diversity and the over-restrictiveness of the existing rules operated to the detriment of Sri Lankan industry. For example, for many textile products, the process criterion specified manufacture from yarn. Thus, fabric not available from

domestic sources could not be used even if its value amounted to less than 50 per cent of the value of the exported products. GSP coverage of textile exports to the EEC were thus not possible. Another example was toys (HS heading 95.43) for which it was necessary to import some parts (also under heading 95.43) from Germany. The finished toys, however, were not eligible for preferential treatment in the EEC as they did not comply with the basic rule of changing the tariff heading. Moreover, when a product did qualify for preferential treatment under one criterion, the same product could be excluded under another. Such restrictions were a particularly serious matter for small economies. Application of "preference-giving country content" and full global cumulation concepts by all preference-giving countries would be beneficial not only in terms of liberalizing the restrictiveness of the origin rules but in promoting international trade between both preference-giving and preference-receiving countries. Foreign investment would be encouraged. Examples of beneficial effects were consistent with modern economic thinking which favoured the liberalization of trade regimes and the play of market forces. Where current cumulation provisions applied only to regional groupings, preference-receiving countries not members of such groupings were discriminated against. For example, the mixing and blending of imported tea with Sri Lankan tea would disqualify it for GSP whereas such production within a regional grouping would so qualify. As concerned harmonization, while the percentage criterion was originally favoured as the preferable unified rule, in view of the now widespread adoption of the HS system, Sri Lanka would be prepared to accept the process criterion as the basis for harmonization. Improvements were still necessary, however, especially as regards simplification.

52. The representative of China said that it was undeniable that implementation of GSP had fallen short of reaching all the goals envisaged in resolution 21 (II), adopted by the UNCTAD Conference in 1968. The root cause of this was the overly stringent rules of origin promulgated by preference-giving countries because they posed obstacles to exporters from developing countries. He commended the Governments of Australia, Canada and New Zealand for adopting the principles of "preference-giving country content" and "global cumulation" in their respective country of origin rules. Regrettably, most preference-giving countries did not yet apply these principles in their schemes. Some countries, while adhering to the principle of preference-giving country content, nevertheless excluded many products, thus curtailing the effectiveness. He appealed to all countries to adopt these two principles, thus allowing the GSP to play a more effective role in world trade. One effective means to realize the objectives of GSP would be to harmonize, improve, and simplify rules of origin criteria. Lack of harmony had created technical obstacles for both certifying authorities and exporters in preference-receiving countries. For example, a tape recorder (under HS 8520) under EEC, Japan and EFTA rules of origin had different stipulated requirements. In order to export the same product to these three markets, different rules of origin criteria had to be met such that producers were forced constantly to modify in their production processes the composition of new raw material and parts. Since most preference-giving countries had adopted the HS nomenclature, he proposed using tariff heading criteria to determine the origin of goods. Finally, China wished to support the statement in chapter I of TD/B/C.5/141, which emphasized resolution 13 (XVIII) adopted by the Special Committee at its eighteenth session.

53. The representative of the United States of America said that rules of origin had been included in his country's review of its GSP scheme. An open view existed as to the nature of any revision. He expressed two concerns about harmonization. First, as indicated in TD/B/C.5/141, there appeared to be no firm basis for identification of the better of the two criteria; there were disadvantages and advantages to both. Secondly, if the purpose of harmonization was to liberalize GSP trade, other and more suitable methods might be employed.

54. The representative of Malta fully agreed that the diversity of rules of origin acted as an obstacle to exporters. Harmonization of the origin criteria would increase export opportunities. She cited examples where specific products under specific schemes had encountered problems. In the case of Canada, imported gold bullion manufactured into high-quality gold chains in Malta did not qualify under the origin rules. Despite the fact that a significant amount of value was added locally in the manufacturing process, the imported gold bullion exceeded by its very nature 40 per cent of the ex-factory price. Neither a donor-country content provision nor full and global cumulation would help in such a case as the gold bullion was sourced elsewhere. Under the United States rules of origin, the same product would have qualified as the imported bullion was substantially transformed which would have counted towards local content. Similarly, under the GSP schemes of Japan, EFTA preference-giving countries and the EEC, the product would qualify since the "change of tariff heading" requirement would have been met. Under chapters 84 and 85, for the schemes of EFTA preference-giving countries and Japan, compliance with the origin criteria was difficult. Moreover, under certain HS headings, four rules of origin were stipulated. The GSP schemes of EFTA preference-giving countries did not make provision for donor-country content or global cumulation. Finally, the 5 per cent requirement on specific parts posed a problem as it generally concerned a significant component of the final product.

55. There were various advantages and disadvantages to both the process and percentage criterion methods. The percentage criterion was the easiest to understand and meet. In fact it applied to all GSP-eligible products included in a particular scheme and most manufacturers were familiar with the concept of value added. However, there were still some discrepancies between schemes. Confusion arose, for instance, when two countries (Australia and New Zealand) indicated a minimum local value-added requirement (50 per cent in both cases), while the others indicated a maximum foreign-input allowance. Another inconsistency lay in the use of the FOB price as the basis for calculation by three countries that applied the percentage criterion (Bulgaria, Hungary and Poland), while other countries applied the ex-factory price or ex-factory cost. The United States scheme also applied a percentage rule, but it was distinct from the method used by all the other countries. In fact it was not particularly advantageous because only the costs of direct processing and of local materials could be counted towards the minimum percentage requirement. Other countries which applied the percentage method of calculation specified a higher minimum amount of local value-added, but allowed profit, overheads, etc., to be included in the calculation. On the other hand, the process criterion method was less desirable. While not difficult to understand in itself, it was less "user-friendly" because no single rule or criterion could be uniformly applied to all GSP-eligible

products, even under a single scheme. Furthermore, compliance with additional rules was often quite difficult as it frequently happened that two, three or even four rules had to be satisfied in order to guarantee originating status for a product. Finally, the "change in tariff heading" rule required that, minimally, details of the HS category of the product had to be known or, alternatively, the HS number of each imported input, before the originating status of the finished product could be confirmed. This could prove tedious and inconvenient, and in either case the exporter required outside assistance.

56. Commending the donor-country content and global-cumulation rules, she said that there was no doubt that the schemes of Canada, Australia, New Zealand, Poland, Czechoslovakia, Hungary, Bulgaria and the former USSR were the most favourable since they allowed both concessions. Japan applied the donor-country content rule, but with some restrictions which detracted from its initial appeal: first, a number of products could not benefit and secondly, particular documentary evidence was required. If harmonization with the other preference-giving countries took place, this would certainly make the Japanese scheme more practical. The schemes of the EFTA preference-giving countries, EEC, the United States and Japan allowed only limited cumulation, i.e. only among selected regional groupings, while only Japan allowed the donor-country content rule. This discriminated against countries like Malta which were not associated regionally or economically with other developing countries. There was also some inconvenience, as the manufacturer, in calculating the non-originating content of production in order to qualify under the percentage criterion, had to disaggregate the local donor-country and other GSP-beneficiary originating materials from the rest. However, the advantage of increasing the chances of qualifying for GSP preferences outweighed this disadvantage. Both the donor-country content and cumulation allowances were important for countries such as Malta, in view of foreign investment and joint venture arrangements. With regard to "substantial transformation" under the United States GSP scheme, while it offered significant benefits by allowing "substantially transformed" imported inputs to be counted towards the local value-added, its subjectivity was a source of uncertainty. A hard and fast definition such as "a change in tariff heading" would help to make the system easier to use. In considering harmonization of the schemes, Malta believed that the ideal situation would be a blend of the United States and Canadian schemes, however difficult it might be to choose between them as each had advantages and disadvantages. The positive aspects of the United States GSP scheme were duty-free treatment granted to all GSP-eligible products, broad product coverage and the "substantial transformation" allowance. The main advantages of the scheme of Canada were full and global cumulation allowance, the donor-country content rule and broad product coverage but the drawback was that no allowance was made for "substantial transformation" or "change in tariff heading". Furthermore, as the duty reduction under the GSP varied by product, this made it less straightforward in application.

57. The representative of Thailand said that the failure of exports to obtain GSP preference was due to the application of restrictions by some major preference-giving countries on the use of imported materials. Some exports had to be made from materials that were scarce in Thailand. Preference-giving countries should not only harmonize their rules but also increase the percentage of non-originating materials (under the same HS heading as the

finished product) which could be used. The list of products subject to special rules should be shortened. Variations in the rules of origin employed by preference-giving countries posed difficulties, as often a particular process which qualified for preferential treatment under one GSP scheme might not qualify under another. The rules of origin of the United States caused difficulty in terms of calculation of the percentage of domestic material plus direct processing costs, for example. Completion of Box 8 in Form A also posed problems but these could be solved by harmonization and simplification. Application of donor-country content rules would likewise lessen the restrictiveness of the origin rules. This concept could be introduced by all preference-giving countries. The use of ex-factory price as a denominator to calculate the percentage of materials used in processing posed difficulties when exporters were not manufacturers. FOB price should be used by all preference-giving countries since it was shown on the export invoice. When Thailand's certificates of origin Form A were rejected by preference-giving countries, Thai authorities were not always informed of the reasons, hence it was often impossible to avoid a recurrence. Preference-giving countries, when rejecting a certificate of origin, should return a copy of the certificate, indicating the reasons for rejection. Differences in HS classification among the authorities concerned in exporting and importing countries were also an obstacle to obtaining GSP preference.

58. The representative of Mexico said that both the percentage modality and the process modality offered advantages, but that it would be much easier for preference-giving countries to take advantage of the GSP schemes if the rules of origin were uniform under all schemes. It was the view of his delegation that uniform criteria under both modalities would constitute an important and decisive step towards complete harmonization of the rules of origin. He also stressed the importance of full and global cumulation: its application to all the schemes would simplify the task of preference-receiving countries in complying with origin requirements.

59. The representative of the European Community said that the harmonization of the rules of origin on the basis of the process criterion had become possible following the widespread adoption by all preference-giving countries of the Harmonized Commodity Description and Coding System (HS). Preference-giving countries were gradually becoming familiar with the System and might thereby soon be able to apply the process criterion. The EC might consider relaxation of the process criterion on a case-by-case basis. As far as the adoption of the preference-giving country content rules was concerned, the EC was open to discussion. In order to alleviate the difficulties encountered by the least developed countries, tolerances in some percentages contained in rules might also be considered case by case.

60. The representative of Austria noted that, in relation to the point raised by Sri Lanka, when it had been agreed to establish a GSP system more than 20 years ago, prospective preference-receiving countries as a whole were against the concept of a donor-country content rule because it might create vertical lines of trade. It might now be appropriate to analyse any possible negative effects arising from application of this concept. Referring to paragraph 76 of TD/B/C.5/141, he pointed out that the EFTA preference-giving countries also applied "partial and regional" cumulation, which was currently

used by one regional grouping. Although there was a request pending from member States of SADDC, the response required from SADDC had not yet been received. Whether or not the preference-giving countries could agree on common action, the secretariat was still to be commended for the quality of the report which had been prepared to give guidance on the discussions (TD/B/C.5/144). Austria, like other preference-giving countries of EFTA had decided to harmonize its rules of origin as closely as possible to those of the EEC scheme, in order to simplify matters for the preference-receiving countries and this limited its manoeuvrability.

61. The representative of Colombia observed that the lack of harmonization of the rules of origin represented an obstacle to the full utilization of the GSP schemes. In this regard, he said that harmonization and simplification of the rules of origin were of the highest importance - if the collective desire was to improve the preference schemes as instruments of economic development. In particular, implementation of the concept of either limited harmonization, namely the simplification of the criteria used by donor countries, or of full harmonization, that is, the replacement of one criterion by another, would have a positive impact on administrative costs and on the steps required to qualify for the schemes. As a direct consequence of harmonization, the utilization rate would show that beneficiary countries were making more efficient use of the GSP schemes.

62. The representative of Finland said that Finland favoured simplifying the rules of origin and having harmonized rules of origin covering all the various GSP schemes of different countries.

63. The representative of Peru expressed the desire to see complete harmonization of the rules of origin.

64. The representative of Malta took the floor again to voice appreciation for the serious thought and expression of ideas that had taken place during the Sessional Committee in the area of harmonization and liberalization of the rules of origin. The various constructive comments made by a number of delegates indicated general agreement on both sides that simplification was necessary at this stage if the original aims of the GSP were to be achieved and the full benefits captured by the preference-receiving countries. She felt that the outcome of the session would carry the work forward in the right direction.

65. The representative of Ecuador also stressed the need to harmonize and simplify the rules of origin so as to increase their usefulness.

Chapter III

TECHNICAL ASSISTANCE IN CONNECTION WITH THE GENERALIZED SYSTEM OF PREFERENCES (Agenda item 5)

66. For consideration of this item, the Special Committee had before it the following documentation:

> "Technical cooperation activities on the generalized system of preferences and other trade laws, 1991, report by the UNCTAD secretariat." (TD/B/C.5/143)

67. The Director and Coordinator of the International Trade Programmes, in introducing TD/B/C.5/143, said that the report not only underscored the high demand for GSP technical cooperation, but also covered the financial viability of the programme and its future.

68. The representative of Japan said that, for optimal benefits from GSP schemes, spontaneous efforts by preference-giving countries were needed to simplify and render more transparent their GSP schemes. Likewise beneficiary countries would need to strengthen their technical and administrative capacity to utilize the GSP schemes. To this end, Japan would continue to support the UNCTAD Technical Cooperation Programme; Japan had financed several seminars such as the regional seminar for Central and Eastern Europe and national seminars for Poland and Argentina, held in 1991, and for Indonesia, in January 1992. For the fiscal year 1992, Japan had contributed US$ 150,000 to finance GSP seminars, thus matching its contribution of 1991. Moreover, pamphlets in English elucidating Japan's GSP scheme were prepared annually and the one for 1992 would soon be available.

69. The representative of Nigeria emphasized the importance to his country of technical assistance as it could provide information about possible benefits under the various GSP schemes. Advice on the marketing and pricing of exports and other problems related to the utilization of GSP benefits could be conveyed in this way.

70. The representative of Romania said that technical cooperation activities on the GSP and other trade laws had been intense in 1991. Such activities were particularly important as they were aimed at increasing the foreign exchange earnings required to achieve development objectives. In this context, Romania trusted that the necessary financial resources would be found to continue the technical assistance programme. Private firms in Romania now accounted for over 20 per cent of import and export trade. Of the 15,000 firms engaged in foreign trade, most were private but did not yet have the necessary knowledge or training to use the GSP. For this reason Romania especially valued the UNCTAD seminar on GSP that would take place in Bucharest in July 1992 and wished to convey its gratitude to Japan for having undertaken the financing. Any further initiatives to extend technical assistance or to provide documentation would be particularly welcomed because a new "focal point" had recently been established in the Ministry of Trade and Tourism to diffuse information on the GSP and other preferential systems.

71. The representative of Austria drew attention to his country's technical assistance to preference receiving countries. The activities in this field had been accurately recorded in TD/B/C.5/143. It was Austria's firm intention to continue such assistance for the GSP project within the limits of its administrative and budgetary possibilities. In addition to the direct contributions, the Austrian customs authorities also gave indirect assistance through national seminars on the GSP and related trade laws.

72. The representative of the European Community said that the EC believed that it was important to continue technical assistance activities on GSP matters and so would work in a close as possible collaboration with the secretariat on this matter.

73. The spokeswoman for the Asian Group (India) expressed satisfaction that a computerized information system on GSP for use by importers and exporters had reached fruition. She hoped that in time the software developed for the GSP could be combined with other software on market access so that a comprehensive picture for exporters in developing countries could be captured in one database.

74. The representative of Mexico said that preference-receiving countries needed more technical assistance activities in order to improve their export capabilities. Such activities would become more important with the eventual conclusion of the Uruguay Round, changes in the GSP schemes and the establishment of regional groupings. Thus, UNCTAD member countries and UNDP should allocate more funds to technical assistance activities related to GSP. He suggested that the distribution of publications providing information about changes in the GSP be improved and that advisory missions, seminars and other such activities be organized.

75. The representative of Sri Lanka said that his Government attached importance to UNCTAD's efforts in the field of technical assistance on the GSP. Sri Lanka was grateful for the contributions made by preference-giving and preference-receiving countries to this end. He urged all Governments to consider providing financial support for the maintenance of the UNCTAD Technical Assistance Programme.

76. The representative of Peru expressed appreciation for the technical cooperation activities carried out by the secretariat and hoped that those activities would be developed still further. His country was looking forward to receiving the new software elaborated by the secretariat.

77. The representative of Hungary expressed appreciation to UNCTAD for its technical assistance programme on the GSP, which had contributed to the effective utilization of GSP advantages. Her country was grateful for the regional seminar on the GSP and other trade laws for Central and Eastern European countries, organized in Warsaw in October 1991 and for the advisory mission on the GSP in Budapest in November 1991. Both events had been co-financed by the Government of Japan and supported by the Governments of Australia, Canada and the United States. The Hungarian authorities considered these events very useful.

78. The representative of Sweden said that her Government attached great importance to technical cooperation. However, some of the future activities planned for the GSP project, as mentioned in paragraphs 6 and 27-29 of TD/B/C.5/143, had to take into account the risk of overlap and duplication of work between the new Standing Committees of UNCTAD and the new Ad Hoc Working Groups. The Special Committee would have to coordinate its work with that of other committees and work carried out elsewhere. As to anti-dumping measures, the work within GATT, including technical assistance, should be fully taken into account. Sweden's annual contribution to the general trust fund had been US$ 40,000 since a number of years and the same amount would be granted in 1992. Her country also provided experts to participate in GSP seminars and financed them. She confirmed that Sweden would continue to support technical assistance activities in the form of two seminars in 1992.

79. The representative of Uruguay, expressing his country's appreciation for the technical assistance provided through the secretariat and by individual preference-giving countries, observed that these activities needed to be directed to both the public and private sectors.

80. The representative of Bangladesh said that while obviously much needed to be done by the least developed countries themselves to disseminate knowledge about the GSP schemes, at the same time, the preference-giving countries needed to simplify procedures, show flexibility in the application of rules of origin and ensure greater stability and predictability in their GSP schemes. The least developed countries needed generous technical asssistance for building institutional capacity in order to benefit from the GSP schemes. In this connection, he mentioned that Bangladesh had benefited from the technical assistance activities of UNCTAD and from the Regional GSP Project for Asia and the Pacific. Bangladesh had participated in the Regional Seminar for Asian Least Developed Countries and Low-income Countries held in Kathmandu, Nepal, in July 1991. Recently, a national seminar on GSP had been held in Dhaka in February 1992, followed by an advisory mission to the GSP focal point in Chittagong. These activities had helped Bangladesh to strengthen its institutional capabilities to make better use of the GSP schemes. He expressed his country's appreciation to UNCTAD and the Regional GSP Project and made a request for similar assistance in the future, not only for Bangladesh but also for other least developed countries.

81. The representative of Switzerland expressed satisfaction with the secretariat's delivery of technical assistance on GSP. Underlining the importance attached to these activities, which Switzerland had financially supported for over 10 years, the Swiss Government had contributed US$ 250,000 to the Programme for 1992 and 1993. Furthermore, the country was going to finance a regional seminar in French-speaking African countries and another one in the Latin American region. In future, however, general activities of the GSP Programme should be included progressively in the UNCTAD regular budget, taking into account the priority accorded by member States to this Programme.

82. The representative of Chile stressed the importance of technical assistance activities. Since the utilization rate of the GSP remained unsatisfactory, such activities should be increased. Countries which were in

a position to provide financial support to technical assistance projects should consider doing so. Finally, he wished to convey the gratitude of his Government to the Governments of Switzerland and Japan for financing a regional and a national seminar in Chile in the second semester of 1992.

83. The representative of China expressed his appreciation to the secretariat for the technical assistance it had provided on the GSP in China and to the Governments of Austria, Canada and Japan for funding this activity. He noted that changes of many GSP schemes and the introduction of the Harmonized System in 1990 had created some technical difficulties for beneficiary countries. It was difficult for them to grasp the changes, and in particular to determine the correct classification of exports. Continued technical assistance was thus essential. China had not been able to make full use of the GSP, primarily for lack of information about the GSP schemes. It would be useful if the UNCTAD secretariat could give beneficiary countries advance notice of any modifications. In future, technical assistance might include issues such as HS classification, the impact of the Uruguay Round negotiations, and the various measures (such as anti-dumping) which might affect GSP exports. Seminars for the training of key staff of preference-receiving countries that included GSP matters would also be welcome. Finally, he said that additional financing for technical cooperation activities from preference-giving countries was necessary. China had itself made annual contributions to the trust fund and would continue to do so in 1992.

84. The representative of Finland said that his Government appreciated the technical assistance given through the UNCTAD secretariat to familiarize beneficiary countries with different GSP schemes. In this connection, he recalled that Finland had given financial support and expertise to the GSP seminar held in 1991 in Windhoek for Namibia and SADCC countries.

85. The representative of Indonesia expressed her Government's appreciation to the Government of Japan for its valuable technical assistance to her country, particularly for the funding and organizing of national seminars held in Indonesia in January 1992. Such seminars, aimed at enhanced understanding by the business community of various GSP schemes, had proved to be very useful in improving technical skills in both the public and private sectors. She welcomed any technical assistance offered by preference-giving countries that would lead to better and more effective use of the GSP schemes.

86. The representative of Yugoslavia underlined his country's strong support for the technical cooperation activities of this Committee and registered the interest of Yugoslavia's private sector to benefit from such assistance.

87. The representative of Malta expressed support for the technical assistance programmes organized by the UNCTAD GSP team and backed by the Governments of UNCTAD member States. She said that the seminar held in Malta in April 1990 had gone a long way towards increasing awareness of the potential that lay in the GSP for Maltese exporters. In addition, the technical assistance programme had encouraged the Maltese Government to participate in the Special Committee on Preferences. She expressed appreciation for these opportunities that were undoubtedly useful to other

developing and least developed countries which might still be unaware of the GSP and of the work being done by UNCTAD. With reference to paragraph 29 of TD/B/C.5/143, she said that her Government enthusiastically supported the efforts being made to put together three very useful publications relating to: trade laws in major developed countries, international trade agreements and anti-dumping laws and practices. For these reasons, she urged preference-giving countries to continue with their valuable financial and technical help in this area.

88. The representative of India made a statement of appreciation and full support for the UNCTAD technical assistance programme and called for its continuance.

89. The representative of Ecuador invited UNDP and the preference-giving countries to contribute financially to the UNCTAD GSP technical assistance projects, in particular for the countries of Latin America where preference margins had shrunk in recent years. Ecuador would welcome a follow-up seminar aimed at identifying internal impediments to making better use of the GSP.

Chapter IV

PROCEEDINGS OF THE 176th (CLOSING) PLENARY MEETING

A. Action by the Special Committee on Preferences on agenda items 3, 4, 5, 6 and 8

90. At the Special Committee's 176th (closing) plenary meeting, on 22 May 1992, the Chairman introduced a set of conclusions which he had drafted by way of summarizing the main points.

91. At the same meeting, the Special Committee agreed to attach these conclusions to the present report (annex II).

B. Report of the Sessional Committee on agenda item 4

92. At the Special Committee's 176th (closing) plenary meeting on 22 May 1992, the Chairman of the Sessional Committee introduced the report of the Sessional Committee on agenda item 4 (TD/B/C.5(XIX)/SC/L.1) with some amendments.

Action by the Special Committee on Preferences

93. At the same meeting, the Special Committee on Preferences took note of the report of the Sessional Committee (TD/B/C.5(XIX)/SC/L.1), as amended. The text of the Sessional Committee's report was subsequently incorporated into the report of the Special Committee on Preferences on its nineteenth session (see Chapter II above).

C. Concluding statement

94. The Chairman said that the issues raised for the first time at the current session would naturally need to be assessed and further examined by the Special Committee in future sessions after appropriate preparation by the secretariat. A fruitful outcome to the Uruguay Round negotiations - with its goal of a substantial reduction in duties - would also reduce preference margins. This would render less meaningful the rules of origin and allow room for a more liberal approach to harmonization. This then could offset the reduction of preference margins. He emphasized that the GSP was intended to benefit all developing countries. Those newly industrializing countries which had successfully joined the ranks of strong, competitive economies would, he believed, gain greatly in enhanced prestige if they could find a way to extend some form of preference concessions in a transparent manner to the lesser developed countries. This should also increase the credibility of the GSP as a whole. Whatever could be done to encourage product coverage would be worthwhile and no country should feel discouraged from contributing to the greatest extent possible. Finally, he commended the delegations for the forthright manner in which they had dealt during the session with subjects which had once been considered virtually taboo.

Chapter V

ORGANIZATIONAL MATTERS

A. Opening of the session

95. The nineteenth session of the Special Committee on Preferences was opened by Mr. C.H. Matute Irias (Honduras), Chairman of the Committee at its eighteenth session.

B. Election of officers
(Agenda item 1)

96. At its 172nd plenary meeting on 18 May 1992, the Special Committee elected its bureau as follows:

Chairman:	Mr. Ernst August Hörig (Germany)
Vice-Chairmen:	Mr. Ricardo Babul (Chile) Mr. Abdeljebbar Brahime (Morocco) Mrs. Lakshmi Puri (India) Mr. Mitoji Yabunaka (Japan)
Rapporteur:	Mr. Ricardo Meléndez (Colombia)

C. Adoption of the agenda and organization of work
(Agenda item 2)

97. Also at its 172nd plenary meeting, the Special Committee adopted its provisional agenda (TD/B/C.5/144) as follows:

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences

4. Consultations on harmonization and improvement of the rules of origin

5. Technical assistance in connection with the generalized system of preferences

6. Provisional agenda for the twentieth session of the Special Committee on Preferences

7. Other business

8. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

98. The Sessional Committee to deal with questions of the "Rules of Origin" was formerly set up by the Special Committee on Preferences at its 174th plenary meeting on 19 May 1992. This action was taken in accordance with the recommendation of the Ad Hoc Intergovernmental Working Group on the In-depth Study of the United Nations Intergovernmental Structure and Functions in the Economic and Social Fields.

99. At the Sessional Committee's 1st meeting on 19 May 1992, Mr. Abdeljebbar Brahime (Morocco) was elected Chairman.

100. The Sessional Committee held two meetings from 19 to 20 May 1992.

D. Attendance*

101. The following States members of UNCTAD were represented at the session: Argentina; Australia; Austria; Bahrain; Bangladesh; Belarus; Belgium; Benin; Bolivia; Brazil; Brunei Darussalam; Bulgaria; Burundi; Cameroon; Canada; Chile; China; Colombia; Costa Rica; Côte d'Ivoire; Cuba; Czechoslovakia; Democratic People's Republic of Korea; Denmark; Dominica; Dominican Republic; Ecuador; Egypt; El Salvador; Ethiopia; Finland; France; Germany; Ghana; Greece; Honduras; Hungary; India; Indonesia; Iran (Islamic Rep. of); Iraq; Ireland; Israel; Italy; Japan; Kenya; Lebanon; Libyan Arab Jamahiriya; Madagascar; Malaysia; Malta; Mexico; Morocco; Namibia; Nepal; Netherlands; New Zealand; Nigeria; Norway; Oman; Pakistan; Panama; Papua New Guinea; Paraguay; Peru; Philippines; Poland; Portugal; Qatar; Republic of Korea; Romania; Russian Federation; Saudi Arabia; Senegal; Singapore; Spain; Sri Lanka; Sudan; Sweden; Switzerland; Syrian Arab Republic; Thailand; Tunisia; Turkey; Ukraine; United Kingdom of Great Britain and Northern Ireland; United Republic of Tanzania; United States of America; Uruguay; Venezuela; Viet Nam; Yugoslavia; Zaire; Zimbabwe.

102. The following specialized agency was represented at the session: International Monetary Fund. The General Agreement on Tariffs and Trade was also represented.

103. The following intergovernmental organizations were represented at the session: African, Caribbean and Pacific Group of States; European Economic Community; Organization of African Unity.

104. The following non-governmental organization was represented at the session: General Category: World Federation of United Nations Associations.

---

* For the list of participants, see TD/B/C.5/INF.19.

E. Provisional agenda for the twentieth session of the Special Committee on Preferences (Agenda item 6)

105. At its 176th plenary meeting on 22 May 1992, the Special Committee adopted the draft provisional agenda for its twentieth session (TD/B/C.5/L.79). For the text of the provisional agenda, see annex II.

F. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board (Agenda item 8)

106. At its 176th (closing) plenary meeting on 22 May 1992, the Special Committee adopted the draft report of its nineteenth session (TD/B/C.5/L.78 and Add.1-5) and authorized the Rapporteur to complete the final text as appropriate.

Annex I

PROVISIONAL AGENDA FOR THE TWENTIETH SESSION OF THE SPECIAL COMMITTEE ON PREFERENCES

1. Election of officers

2. Adoption of the agenda and organization of work

3. Review of the implementation, maintenance, improvement and utilization of the generalized system of preferences

4. Consultations on harmonization and improvement of the rules of origin

5. Technical assistance in connection with the generalized system of preferences

6. Provisional agenda for the twenty-first session of the Special Committee on Preferences

7. Other business

8. Adoption of the report of the Special Committee on Preferences to the Trade and Development Board

Annex II

CHAIRMAN'S CONCLUSIONS ON THE NINETEENTH SESSION OF THE SPECIAL COMMITTEE ON PREFERENCES

1. The Special Committee on Preferences was the first of the UNCTAD bodies to meet since UNCTAD VIII. The session stood as a test case for the realization of the UNCTAD programme of work. As such, the results were encouraging and hopefully would set the example for the conduct of meetings of other UNCTAD bodies.

2. Unlike past practice, it was not deemed necessary to have a formal negotiated outcome. All topics on the agenda were thoroughly discussed during the session. Some of the key points are outlined below to serve as a basis for continuity in the future work of the Special Committee.

3. In the discussion, the following topics were the most noteworthy:

A. The question of graduation or differentiation was for the first time formally and informally addressed openly after 20 years of application of the Generalized System of Preferences (GSP).

(i) It was felt that graduation/differentiation in the treatment of beneficiary countries could lead to arbitrary and restrictive results. Objective and rational criteria for their treatment would be the best way to avoid such unwanted and often discriminatory results.

(ii) One positive effect of graduation/differentiation could and should be a better spread of benefits among developing countries. It should also open the way for increased product coverage in areas of export interest to developing countries. Moreover, domestic credibility of the GSP in the preference-giving countries would be enhanced.

(iii) It was felt that country/product differentiation was preferable to complete country exclusion because such a macroeconomic policy decision could create problems at the microeconomic level for the graduated country.

B. Rules of origin had from the outset been a cause of concern to those countries obliged to meet rules of origin requirements. During the current session, the Sessional Committee had an extensive exchange of views on this subject, both formally and informally. From these meetings, the following points which emerged met with widespread agreement, raising hopes for positive improvements:

(a) Harmonization

(i) The question of harmonization should be treated as an issue separate from other possible improvements, for example, simplification and liberalization.

(ii) It was reaffirmed that the case in favour of harmonization of GSP origin rules had been established.

(iii) The review of GSP schemes, being undertaken by some preference-giving countries, would include rules of origin and their possible harmonization. Options in regard to the basis and scope of any harmonization remained open; however, some movement in favour of the process criterion was evident. A similar trend existed in regard to non-GSP rules of origin.

(b) Concept of donor-country content

(i) Application of the donor-country concept offered some relaxation of the restrictions contained in rules of origin and would encourage foreign investment and promote international trade.

(ii) It was the view of many countries that extension of the use of the donor-country concept would be consistent with national and international trends towards liberalization of trade.

(c) Cumulation

Full global cumulation was seen as having positive effects on cooperation among beneficiary countries. It would, in particular, benefit those countries outside regional groupings.

C. Technical assistance was stressed as being of continuing importance for meeting the growing needs of countries, as an increasing number were now in a position to use the GSP. The shortfall in financial support and the need for these activities was noted. The presentation at the current session of computer software containing information on the GSP schemes of 12 significant preference-giving countries or groups of countries was considered a step in the right direction as such software could help exporters to use the GSP more effectively.

4. There was broad consensus that, in line with agreed policy, ways and means should be sought, concerning every aspect of the GSP, to offer special benefits to all the least developed countries in view of their limited industrial base and export power.

5. During the session, 84 bilateral and plurilateral consultations took place between 20 beneficiaries and the 15 preference-giving countries and groupings. As in the past, these consultations formed a positive and practical complement to the activities of the Special Committee on Preferences.

Annex III

Checklist of Documents

Document No.		Agenda item
TD/B/C.5/120 and Corr.1	Improvements in rules of origin, including harmonization: Identification and promotion of possible initiatives	4
TD/B/C.5/141	Examination of definitions of "Substantial Transformation" and implications of harmonization: Possible initiatives in regard to simplification and liberalization	4
TD/B/C.5/142	Fifteenth general report on the implementation of the generalized system of preferences	3
TD/B/C.5/142/Supp.1	The incidence of non-tariff measures on imports of GSP covered products	3
TD/B/C.5/143	Technical cooperation activities on the GSP and other trade laws, 1991	5
TD/B/C.5/144	Provisional agenda and annotations	2
TD/B/C.5/L.78 and Add.1-5	Draft report of the Special Committee on Preferences on its nineteenth session	8
TD/B/C.5/L.79	Provisional agenda for the twentieth session of the Special Committee on Preferences	6
TD/B/C.5(XIX)/CRP.1	Report of the Intergovernmental Meeting on Policy Issues and Measures arising from the Effects of Graduation under the Generalized System of Preferences	3
TD/B/C.5(XIX)/SC/L.1	Draft report of the Sessional Committee of the Special Committee on Preferences	4
TD/B/C.5(XIX)/Misc.2 and Add.1	Provisional list of participants	
TD/B/C.5/INF.19	List of participants	

كيفية الحصول على منشورات الامم المتحدة

يمكن الحصول على منشورات الامم المتحدة من المكتبات ودور التوزيع في جميع انحاء العالم . استعلم عنها من المكتبة التي تتعامل معها أو اكتب الى : الامم المتحدة ،قسم البيع في نيويورك او في جنيف .

如何购取联合国出版物

联合国出版物在全世界各地的书店和经售处均有发售。请向书店询问或写信到纽约或日内瓦的联合国销售组。

HOW TO OBTAIN UNITED NATIONS PUBLICATIONS

United Nations publications may be obtained from bookstores and distributors throughout the world. Consult your bookstore or write to: United Nations, Sales Section, New York or Geneva.

COMMENT SE PROCURER LES PUBLICATIONS DES NATIONS UNIES

Les publications des Nations Unies sont en vente dans les librairies et les agences dépositaires du monde entier. Informez-vous auprès de votre libraire ou adressez-vous à : Nations Unies, Section des ventes, New York ou Genève.

КАК ПОЛУЧИТЬ ИЗДАНИЯ ОРГАНИЗАЦИИ ОБЪЕДИНЕННЫХ НАЦИЙ

Издания Организации Объединенных Наций можно купить в книжных магазинах и агентствах во всех районах мира. Наводите справки об изданиях в вашем книжном магазине или пишите по адресу: Организация Объединенных Наций, Секция по продаже изданий, Нью-Йорк или Женева.

COMO CONSEGUIR PUBLICACIONES DE LAS NACIONES UNIDAS

Las publicaciones de las Naciones Unidas están en venta en librerías y casas distribuidoras en todas partes del mundo. Consulte a su librero o diríjase a: Naciones Unidas, Sección de Ventas, Nueva York o Ginebra.

Printed at United Nations, Geneva
GE.92-51475
July 1992–3,380

United Nations publication